

a. Common Items

The cost of items reasonably usable on the institution's other work shall not be allowable unless the institution submits evidence that it could not retain such items at cost without sustaining a loss. In deciding whether such items are reasonably usable on other work of the institution, the awarding agency should consider the institution's plans and orders for current and scheduled operations. Contemporaneous purchases of common items by the institution shall be regarded as evidence that such items are reasonably usable on the institution's other work. Any acceptance of common items as allocable to the terminated portion of the project should be limited to the extent that the quantities of such items on hand, in transit, and on order are in excess of the reasonable quantitative requirements of other work.

b. Costs Continuing After Termination

If in a particular case, despite all reasonable efforts by the institution, certain costs cannot be discontinued immediately after the effective date of termination, such costs are generally allowable within the limitations set forth in this document, except that any such costs continuing after termination due to the negligent or willful failure of the institution to discontinue such costs shall be considered unallowable.

c. Rental Costs

Rental costs under unexpired leases are generally allowable where clearly shown to have been reasonably necessary for the performance of the terminated project less the residual value of such leases, if:

- (1) the amount of such rental costs claimed does not exceed the reasonable use value of the property leased for the period of the project and such further period as may be reasonable; and
- (2) the institution makes all reasonable efforts to terminate, assign, settle, or otherwise reduce the cost of such lease.

The cost of alterations of such leased property also may be included, provided such alterations were necessary for the performance of the project, and of reasonable restoration required by the provisions of the lease.

d. Settlement Expenses

Settlement expenses including the following are generally allowable:

- (1) accounting, legal, clerical, and similar costs reasonably necessary for the preparation and presentation to awarding agency of settlement claims and supporting data with respect to the terminated portion of the project, and the termination and settlement of subcontracts.
- (2) reasonable costs for the storage, transportation, protection, and disposition of property acquired or produced for the project.

e. Subcontractor Claims

Subcontractor claims, including the allocable portion of claims which are common to the project and to other work of the institution are generally allowable.

25. Trade, Business, Technical and Professional Activity Costs

Costs of memberships in trade, business, technical, and professional organizations are allowable. Cost of subscriptions to trade, business, professional, or technical periodicals are allowable. Costs of meals, transportation, rental of facilities for meetings, and costs incidental thereto, when the primary purpose of the incurrence of such costs is the dissemination of technical information or stimulation of production are allowable.

26. Training and Educational Costs

- a. Costs of on-the-job training and part-time education, at an undergraduate or post-graduate college level are allowable only when the course or degree pursued is related to the job requirements of the employee, and limited to:

- (1) training materials;
- (2) textbooks;
- (3) fees charged by the educational institution;
- (4) tuition charged by the educational institution, or in lieu of tuition, instructors' salaries and the related share of indirect cost of the educational institution to the extent that the sum thereof is not in excess of the tuition which would have been paid to the participating educational institution; and

- (5) straight-time compensation of each employee for time spent attending classes during work hours not in excess of 156 hours per year where circumstances do not permit the operation of classes or attendance at classes after regular working hours.
- b. Costs of tuition, fees, training materials and textbooks (but not subsistence, salary, or any other emoluments) in connection with full-time scientific and medical education at a post-graduate (but not undergraduate) college level related to the job requirements of bona fide employees are allowable. Such costs are limited to the costs attributable to a total period not to exceed one school year for each employee so trained. Such costs are allowable when approved in writing by the awarding agency.
- c. Grants to educational or training institutions, including the donation of facilities or other properties, scholarships, or fellowships, are considered contributions and are unallowable.
- d. The costs of training courses taken by an employee to acquire basic skills which he should bring to the job or to qualify a person for duties other than those related to an institution's goals are unallowable.

27. Transportation Costs

Transportation costs include freight, express, cartage, and postage charges related either to goods purchased, in process, or delivered. These costs are allowable. When such costs can readily be identified with the items involved, they may be directly costed as transportation costs or added to the cost of such items (See Item 12). Where identification with the materials received cannot readily be made, transportation costs may be charged to the appropriate indirect cost accounts if the institution follows a consistent, equitable procedure in this respect. Outbound freight, if reimbursable under the terms of the contract shall be treated as a direct cost.

28. Travel Costs

- a. Travel costs are the expenses of transportation, lodging, subsistence, and incidental expenses incurred by institution personnel in a travel status while on official business of the institution. Travel costs are allowable subject to paragraphs b. and c. below, when they are directly attributable to specific work under the contract or incurred in the normal course of administration of the institution.
- b. Travel costs may be charged on an actual costs incurred, or on a per diem or mileage basis in lieu of actual costs, or on a combination of the two, provided the method used does not result in an unreasonable charge.

- c. The difference in cost between first-class and less than first-class air accommodations is unallowable except when less than first-class air accommodations are not reasonably available to meet necessary mission requirements, such as where less than first-class accommodations would (1) require circuitous routing, (2) required travel during unreasonable hours, (3) greatly increase the duration of the flight, (4) result in additional costs which would offset the transportation savings, or (5) offer accommodations which are not reasonably adequate for the medical needs of the traveler.
- d. Costs of personnel movement of a special or mass nature are allowable only when authorized or approved in writing by the sponsoring agency.

**STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
Reimbursement for Intermediate Care Facilities for the Mentally Retarded
(ICF/MRs)**

29. Clothing supplied by the facility, as required by the patient's plan of care, will be an allowable cost for Medicaid patients residing in public and private ICFs/MR.

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3.6 UNALLOWABLE ITEMS OF COST

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General Standards for Unallowable Costs**1. Bad Debts**

Bad debts, including losses (whether actual or estimated) arising from uncollectable customers' accounts and other claims, related collection costs, and related legal costs, are unallowable.

2. Capital Expenditures

The costs of equipment, buildings, and repairs which materially increase the value or useful life of buildings or equipment, are unallowable except as provided for in the contract.

3. Contingencies

- a. A contingency is a possible future event or condition arising from presently known or unknown causes, the outcome of which is indeterminable at the present time.
- b. In historical costing, contingencies are not normally present since such costing deals with costs which have been incurred and reported on the institution's books. Accordingly, contingencies are generally unallowable for historical costing purposes. However, in some cases as for example, terminations, a contingency factor may be recognized which is applicable to a past period to give recognition to minor unsettled factors in the interest of expeditious settlement.

c. In connection with estimates of future costs, contingencies fall into two categories:

- (1) those which may arise from presently known and existing conditions, the effects of which are foreseeable within reasonable limits of accuracy; e.g., pension funds, sick leave, and vacation accruals, etc. In such situations where they exist, contingencies of this category are to be included in the estimates of future cost so as to provide the best estimate of performance costs; and
- (2) those which may arise from presently known or unknown conditions, the effect of which cannot be measured so precisely as to provide equitable results to the institution and to the Government; e.g., results of pending litigation, and other general business risks. Contingencies of this category are to be excluded from cost estimates under the several items of costs, but should be disclosed separately, including the basis upon which the contingency is computed in order to facilitate the negotiation of appropriate contractual coverage (See Section 3.5, Items 9, 11 and 22.).

4. Contributions and Donations

Contributions and donations by the institution to others are unallowable.

The value of donated services or goods provided by individual volunteers or members of volunteer organizations is not an allowable cost; however, the fair market value of donated services or goods utilized in the performance of direct cost activity shall be considered in the determination of the indirect cost rate(s) and, accordingly, shall be allocated a proportionate share of indirect cost.

5. Entertainment Costs

Costs of amusements, diversions, ceremonials, entertainment or social activities, such as meals, beverages, lodging, rentals, transportation, and gratuities for staff or guests are not allowable. Entertainment on holidays and special occasions for children served by the agency, is allowable if specifically provided for in the agency's work program of care and treatment. (See Section 3.5, Items 7 and 25.)

6. Excess Facility Costs

a. As used in this item, the following terms have the meanings indicated:

- (1) Facilities means land and buildings, equipment individually or collectively, or any other tangible capital asset, wherever located and whether owned or leased by the institution.

- (2) Idle Facilities means completely unused facilities that are excess to the institution's current needs.
 - (3) Idle Capacity means the unused capacity of partially used facilities. It is the difference between (a) that which a facility could achieve under 100 percent operating time less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays, and (b) the extent to which the facility was actually used to meet demands during the accounting period.
 - (4) Costs of Idle Facilities or Idle Capacity means costs such as maintenance, repair, housing, rent, and other related costs (e.g., property taxes, insurance, and depreciation).
- b. The costs of idle facilities are unallowable except to the extent that:
- (1) the facilities are necessary to meet fluctuations in workload; or
 - (2) although not necessary to meet fluctuations in workload, they were necessary when acquired and are now idle because of changes in program requirements, contractor efforts to produce more economically, reorganization, termination, or other causes which could not have been reasonably foreseen. Under the exception stated in this subparagraph, costs of idle facilities are allowable for a reasonable period of time, ordinarily not to exceed one year, depending upon the initiative taken to use, lease, or dispose of such facilities (but see allowable Item 24, (b) and (e), Section 3.5).
- c. The costs of idle capacity are normal costs of doing business and are a factor in the normal fluctuations of usage or indirect cost rates from period to period. Such costs are allowable, provided the capacity is reasonably anticipated to be necessary or was originally reasonable and is not subject to reduction or elimination by subletting, renting, or sale, in accordance with sound business, economics, or security practices. Widespread idle capacity throughout an entire plant or among a group of assets having substantially the same function may be idle facilities.

7. Fines and Penalties

Costs of fines and penalties resulting from violations of, or failure of the institution to comply with, federal, state, and local laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the contract instructions in writing from the awarding agency.

8. Interest and Other Financial Costs

- a. Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable, except for Medicare/Medicaid programs which allow certain interest expenses (See Medicare principles of reimbursement).
- b. Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable.
- c. Costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments are unallowable.
- d. Where substantial effort or time is devoted to fund raising and investment activities in relation to other functions of an institution, such activities shall be considered as a major activity of the institution and shall be allocated its share of indirect costs in accordance with Section 3.3, Indirect Costs.

9. Independent Research and Development

- a. An institution's independent research and development (I.R. and D.) is that research and development which is not sponsored by the Government or a non-Government organization under a grant/contract or other arrangement.
- b. Basic research, for the purpose of this document, is that type of research which is directed toward increase of knowledge within a particular discipline. In such research, the primary aim of the investigator is a fuller knowledge of understanding of the subject under study, rather than any practical application thereof. Applied research, for the purpose of this document consists of that type of effort which (1) is normally derived from the results of basic research, but may not be severable from related basic research, (2) attempts to determine and expand the potentialities of new scientific discoveries or improvements in technology, materials, processes, methods, devices, and techniques, and (3) attempts to "advance the state of the art." Applied research, does not include any such efforts when their principle aim is the design, development, or test of specific articles or services to be offered for sale, which are within the definition of the term development as defined in c. below. Census research, for the purpose of this document, is that type of activity devoted to the compilation and interpretation of statistical and other analytical information acquired through survey (e.g., interview, circularization of questionnaires), observations or from books, treatises, articles or other sources relative to specifically defined activities, occurrences or conditions for the purpose of accomplishing some scientific end.

- c. "Development" is the systematic use of scientific knowledge which is directed toward the production of, or improvements in, useful products to meet specific performance requirements, but exclusive of manufacturing and production engineering.
- d. Independent research and development will be treated in a manner consistent with the treatment of sponsored research and development. Accordingly, an institution's I.R. & D. shall be allocated in proportionate share of indirect costs on the same basis that indirect costs are allocated to sponsored research and development.
- e. The cost of an institution's I.R. & D. including its proportionate share of indirect costs, is unallowable.

10. Losses on Other Grants or Contracts

Any excess of costs over income on any grant or contract is unallowable as a cost of any other grant or contract.

11. Organization Costs

Expenditures such as incorporation fees, attorney's fees, accountant's fees, broker's fees, fees to promoters and organizers, in connection with (a) organization or reorganization of a business, or (b) raising capital, are unallowable unless specified otherwise in the contract.

12. Plant Reconversion Costs

Plant reconversion costs are those incurred in the restoration or rehabilitation of the institution's facilities to approximately the same condition existing immediately prior to the commencement of the contract work, fair wear and tear excepted. Reconversion costs are unallowable except for the cost of removing Government property and the restoration or rehabilitation costs caused by such removal. However, in special circumstances where equity so dictates, additional costs may be allowed to the extent agreed upon in writing before the costs are incurred. Whenever such costs are given consideration, care should be exercised to avoid duplication through allowance as contingencies, as additional profit or fee, or in other contracts.

13. Preaward Costs

Costs incurred prior to the effective date of the contract, whether or not they would have been allowable thereunder if incurred after such date, are unallowable unless specifically set forth and identified in the contract.